



中華電信
Chunghwa Telecom

CHT 3Q2014 Results October 29, 2014 at 4:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our third quarter 2014 earnings results conference call. Joining me on the call today are Mr. Shih, President and Mr. Chen, CFO.

During today's call, management will first discuss business, operational and financial highlights then we will move on to the Q&A session.

Before I turn it over to today's speakers, I would like to remind you that a number of forward-looking statements will be made during this conference call. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of Chunghwa and there can be no assurance that such expectations will prove to be correct. Because forward-looking statements involve risks and uncertainties, Chunghwa's actual results could differ materially from these statements.

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Before we continue, please note our safe harbor statement on **slide 2**. Now I would like to turn the call over to President Shih.

Chunghwa Telecom Overview

Thank you, Fufu. Hello everyone, this is Mu-Piao Shih. Thank you for joining our third quarter 2014 conference call.

According to a NCC press release announced last week, total 4G subscribers on October 15 reached 1.65 million. With this, we believe our 4G market share has already exceeded 35% and we are in the leading position in Taiwan mobile market. We are working aggressively within our Company and with our partners to enable and facilitate the 4G service promotion. Part of the reason we saw strong 4G subscription momentum was due to the long-awaited iPhone 6, which went on sale in September. However, we have been concerned about the supply shortage of iPhone 6 handsets, which may impact our year end revenue guidance.

Also, as we continue to regularly and carefully review our capex budget and execution plan, we will focus on ensuring optimal return through the cost effective spending as well as the precision construction. In addition, our capex outlay will continue to focus on 4G network deployment and fiber broadband construction. The fiber broadband investment will predominately emphasize FTTH

construction instead of network coverage enhancement. Therefore, it is possible to realize more than a 10% reduction in budgeted capex for this year.

Number One Mobile Services Provider

Slide 5 provides an update on our mobile business.

During the third quarter, mobile VAS revenue grew by 22.1% year over year, mainly driven by the 29.0% increase in mobile internet revenue.

Entering into the new 4G era, our mobile business strategies are focusing on 4G service promotions, followed by expanding the 4G device profile from high tier to mid and lower tier. The migration of 2G customers to the 3G or 4G network is also part of the strategies to promote data service. Meanwhile, we will accelerate 4G network deployment to reach a population coverage of 90% and 99% by the end of 2014 and 2015, respectively

Smartphone-Value Driver for Mobile

Moving on to slide 6.

For the first nine months of 2014, we saw a net increase in mobile internet subscribers of more than 950 thousand. We expect to reach our 1.1 million net add target for the year, which is currently ahead of schedule.

From our internal calculation, ARPU for 4G subscribers in the third quarter exceeded the ARPU figure for our mobile internet subscribers.

Fixed Broadband Internet Services

Slide 7 shows the results for our broadband business.

During the third quarter, we continued to see a steady migration of subscribers to higher speed fiber services. We witnessed almost 300% year-over-year growth in subscribers opting for connection speeds of 100Mbps or higher, reaching about 752,000 by the end of September 2014.

We will continue to encourage our subscribers to migrate to higher speed fiber offerings. This year, we launched 300M fiber broadband services to keep ahead of the competition. We will continue to promote convergence plans which combine broadband and MOD services. In addition, we are planning to include 4G mobile services in a new convergence plan to stimulate fiber migration, and MOD and 4G subscriptions.

MOD/IPTV Service

Moving on to slide 8.

Our IPTV revenue in the third quarter 2014 increased by 23.2% year over year. Moreover, the household TV usage rate continued to increase to 61.9% over the past several quarters, demonstrating our success in boosting customer stickiness on our platform.

In addition to the fiber convergence plan which boosted IPTV subscriptions, we will continue enriching local content and VOD programs. We will also focus on optimizing the MOD cost structure to enhance capital efficiency.

As mentioned, we are planning to offer a fixed and mobile convergence plan so that 4G subscribers who also subscribe to the convergence service can enjoy MOD programs over their smart devices.

ICT and Cloud Computing Initiatives

Please see slide 9 for an update on our ICT and cloud initiatives.

We will continue to leverage our core telecom infrastructure and services to expand the ICT business, including cloud services, enterprise total solutions and government projects. Although relevant revenue from this area will be less than 5% of our total revenue in 2014, it is expected to be more significant in 2015.

Now, I would like to hand it over to Mr. Chen to go through our financial results.

Financial Overview

Thank you President Shih. Now I will review our financial results in detail, beginning on slide 11.

Income Statement Highlights

On slide 11 are our income statement highlights.

For the third quarter of 2014, total revenues decreased by 1.0% and operating costs and expenses increased by 1.9% year over year. Our income from operations and net income decreased by 11.3% and 8.8%, respectively. In addition, our EBITDA margin decreased from 36.36% to 35.19% in the third quarter as compared to the same period in 2013.

Business Segment Revenues

Please refer to slide 12 for an update on our business segment revenue.

For the third quarter of 2014, the year over year decline in the total revenue was driven by the decrease in fixed and mobile voice revenue and handset sales, which offset the increase in mobile VAS revenue and ICT project revenue.

Costs and Expenses

Moving on to Slide 13, our third quarter operating costs and expenses increased by 1.9% year over year, mainly due to the higher early retirement compensation and increasing depreciation and amortization expenses, which were partially offset by a lower cost of handsets sold and interconnection fee. To be more specific, the increase in depreciation expense was mainly from 4G construction, 3G maintenance and cloud and IDC equipment investment while amortization expense was mainly from the amortization of the 4G license fee.

Cash Flow & EBITDA Margin

On slide 14, in the third quarter of 2014, cash flow from operating activities increased by NT\$1.05 billion compared to the same period of 2013.

Cash and cash equivalents at the end of the period decreased year-over-year mainly due to the NT\$39.1 billion payment for acquiring the Mobile Broadband License in the fourth quarter of 2013. As of September 30, 2014, we had NT\$8.10 billion of cash and cash equivalents. The decrease in EBITDA margin was primarily due to 4G promotion and higher personnel expenses in the third quarter of 2014.

Forecast & Operating Results

Slide 15 shows our 2014 third quarter and the first nine months results as compared to our guidance.

In the third quarter, our revenue was lower than expected mainly due to lower handset sales. Operating costs and expenses were also lower than our expectations mainly due to the lower cost of handset sold which offset the increase in costs and expenses from the following two factors, the higher early retirement compensation owing to more employees than expected that took the program and the higher D&A expenses attributed to the ahead-of-schedule 4G service launch. As a result, our operating income, net income and EBITDA are all lower than our third quarter guidance. For the first nine months, although revenues and operating costs and expenses are lower than expected, our operating income, net income and EBITDA for the first nine months exceeded our guidance. We expect our full year net income will slightly outperform our forecast.

Effective and Efficient Capital Expenditure

Lastly, on slide 16.

We expect to see more than a 10% reduction in the budgeted capex this year. We continue to allocate our capital expenditure primarily toward 4G network deployment and fiber broadband construction. Precision construction based on big data analysis is the key to ensure the optimal capex spending. The fiber broadband investment will emphasize FTTH construction rather than network coverage enhancement. We will also continue to leverage our scale by focusing on the procurement process.

Thank you for your attention and now we would like to open up for questions.

- Q&A Session -